



THE MEDICARE PRESCRIPTION DRUG, IMPROVEMENT, AND MODERNIZATION ACT OF 2003: *EXPLAINING THE DIFFERENCE IN COST ESTIMATES*

Background

The Congressional Budget Office (CBO) supports the House and Senate in the federal budget process by providing budgetary analysis and information. In addition to preparing annual reports on the economic and budget outlook and on the President's budget proposals, CBO provides cost estimates of legislation, scorekeeping reports, assessments of unfunded mandates, and products and testimony relating to other budgetary matters. CBO estimates that the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 will cost \$395 billion over the next 10 years.

The Office of Management and Budget (OMB) oversees budget development for the President. OMB sets forth the framework by which agencies formulate their budget requests, and is responsible for ensuring agency budget requests are consistent with the President's agenda and policy goals. OMB estimates that the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 will cost \$540 billion over the next 10 years.

Why Are the Assumptions Different?

CBO and OMB often disagree on their estimates for future spending. Because they are making predictions dependent upon multiple factors, differences can have a significant impact on projected spending levels. Therefore, **it is difficult to conclusively know the effect of legislation on federal spending until we review actual spending upon implementation.** The new Medicare prescription drug benefit will be implemented in 2006.

Some of the factors that result in CBO and OMB reaching different conclusions on the cost of the legislation over the next ten year period include:

- **CBO and OMB use slightly different “baselines” from which they estimate the impact of legislative changes to the Medicare and Medicaid Program.** Specifically, CBO projects that the 10-year costs of the Medicare and Medicaid program will be \$6.7 trillion, while OMB projects that Medicare and Medicaid spending will be closer to \$7 trillion.
- **CBO and OMB make different assumptions about the 10-year cost of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.** For example, CBO estimates that drug prices will be controlled sooner under the bill than OMB does. Additionally, OMB assumes more seniors will benefit from provisions designed to assist low-income seniors than CBO does.

CBO's analysis of the bill will not change based on OMB's estimates.